

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 17th December 1980

The exchanges were somewhat steadier today. The dollar tended firmer this morning, though without reaching yesterday's exalted levels, but weakened dramatically late in the day as interest rates fell. Sterling again traded quietly, moving with the tide of events elsewhere. The ERI fell to 77.4.

The pound closed lower at 2.3140 in New York yesterday, although the dollar itself finished a good deal weaker. This morning sterling opened at 2.3162 and, after touching 2.3152, saw little movement through the early morning. Later, as the dollar firmed, the pound advanced to 2.3225 and traded on around 2.32 into the afternoon, even though the dollar lost all and more of its early gains. Sterling closed at 2.3205. Later, a statement that President-elect Reagan was considering declaring a national economic emergency brought a sharp decline in eurodollar rates and a precipitate mark-down for the dollar. Sterling was quoted around 2.33. Three-month eurodollars gained $\frac{1}{2}\%$ to $21\frac{1}{2}\%$ over the day. Sterling's three-month forward premium widened only marginally to 7% p.a. so that the covered differential swung to $\frac{1}{2}\%$ against London. Later, following the statement from the new White House chief of staff, eurodollars lost $\frac{1}{2}\%$ and forward margins adjusted to compensate.

The pound gave up $\frac{1}{2}\%$ in Zurich (4.20 $\frac{1}{2}$), $\frac{1}{2}\%$ in Frankfurt (4.63 $\frac{1}{2}$) and $\frac{1}{2}\%$ in Paris (10.74 $\frac{1}{2}$). The dollar closed easier on balance in these centres at 1.8142 (later 1.80), 1.9975 (later 1.9775) and 4.6292 (later 4.5875) respectively. Yesterday the Federal Reserve sold \$25 mn. for deutschemarks; today the Bundesbank sold \$20 mn. for the Federal Reserve. EMS was all but fully-stretched between the Dutch florin (2.17) and Belgian franc (32.20). The lira (947.75) was 3 $\frac{1}{2}\%$ distant. The Belgians sold \$11 mn.-worth of florins; the Italians bought \$75 mn; the Germans took in \$6 mn.-worth of French francs. Elsewhere the Norwegians bought \$15 mn. and the Swedes sold \$30 mn. The yen closed at 209.55 in Tokyo and 209.07 in London.

Gold gained modestly over the day with fixings of \$572 and \$575.50. Later, however, as the dollar sagged, the metal was bid up to \$586.

Operations: Market + \$3 mn.

J.G.H.
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